



CITY OF MARSTON, MISSOURI  
YEAR ENDED DECEMBER 31, 1999

**From The Office Of State Auditor  
Claire McCaskill**

Report No. 2000-57  
July 19, 2000  
[www.auditor.state.mo.us](http://www.auditor.state.mo.us)

**AUDIT REPORT**



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

July 2000

[www.auditor.state.mo.us](http://www.auditor.state.mo.us)

**Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from the City of Marston, Missouri.**

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The city of Marston is in poor financial condition as a result of various factors. Numerous internal control weaknesses, lax controls over expenditures, and inefficient management practices have been identified and discussed in more detail throughout our report. Because of the poor financial condition, the city has used over billings from a federal grant program to fund normal operating expenses.

The city received federal assistance from the U.S. Department of Justice under the COPS program for three additional full time officers which increased the number of city officers to four. Since March 1995, the city has received grant awards totaling \$80,007. Under the grant provisions, the city was required to provide 25 percent of the cost of employing the additional officers until the grant expires on September 30, 2000, in addition, to continuing to provide 100 percent of the cost of employing the original officer.

The city received reimbursement totaling \$64,270 for the period January 1997 through September 1999. During this time period, the city employed two or three officers (including the original officer) but included the salary of the original officer in the reimbursement request. Because the grant agreement required the city to fund 100 percent of the first officer, excess disbursements of approximately \$37,000 were claimed.

The Board of Aldermen should contact the applicable federal grantor agency to resolve this issue. In addition, the city should ensure future compliance with all federal regulations.

As noted by the city's auditor during his annual audit for the year ended December 31, 1998, loans, personal purchases, water bills and tap fees, and tractor rental fees were made to former Police Chief James Fortner and former City Collector Bridget Fortner (his wife) during the two years ended December 31, 1998.

The city's auditor identified \$4,391 in improper transactions of which \$4,060 was reimbursed to the city through salary withholdings and repayments by the Fortners. The repayments included \$1,349 from Alderman Phillips on behalf of the Fortners.

In addition, there were salary overpayments totaling \$2,815 to the Fortners during the two years ended December 31, 1998, that are not included in the above amounts. These salary overpayments and improper transactions occurred and were not detected because of the lack of authorization and review of payments by the board and the practice of signing

(over)

YELLOW SHEET

checks in advance. Although city checks required two signatures, the former Mayor routinely signed checks in advance allowing the former City Collector, Bridget Fortner, to negotiate the improper transactions and salary overpayments. The employment of Bridget and James Fortner was terminated by the city in February 1999.

For a number of years, the city has made transfers between the various funds when monies are needed to pay bills. This appears to have been a regular part of the city's operations with no consideration given to restricted monies. During the year ended December 31, 1999, transfers totaling \$35,098 were made from restricted funds (\$30,361 from the Water and Sewer Fund and \$4,737 from the Street Fund) to the General Fund. These restricted funds should not be used for general purposes. Although it appears the city paid back the restricted funds with its one cent general sales tax monies, the city should refrain from transferring restricted monies in the first place. In addition, procedures have not been established to ensure expenditures are properly allocated among the various funds benefiting from the expenditures and to ensure restricted revenues are expended only for their intended purposes.

It is essential that the city account for the various revenue sources and properly allocate expenses to the various funds. Allocation of expenses is necessary for the city to ensure the water and sewer rates are sufficient to cover the costs of providing the service without generating profits to subsidize other city services.

The city does not prepare or adopt annual budgets. Semi-annual financial statements have not been published and annual financial reports are not submitted to the State Auditor's office as required by state law.

The city has no formal bidding policy. Supporting documentation was not available for several payments to vendors. The board does not review related invoices and supporting documentation prior to signing checks. The city does not reconcile all bank accounts and does not have adequate procedures established for the petty cash fund.

Accounting and bookkeeping duties are not adequately segregated. Receipts are not recorded or deposited in a timely manner. Time sheets and leave records are not prepared and maintained on a regular basis.

Utility accounting and bookkeeping duties are not adequately segregated. Adjustments to utility accounts are not approved by the board. The number of gallons of water billed to customers is not reconciled to the number of gallons of water pumped by the city.

CITY OF MARSTON, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT .....	1-2
HISTORY AND ORGANIZATION .....	3-6
MANAGEMENT ADVISORY REPORT.....	7-23
SUMMARY OF FINDINGS .....	8-9

<u>Number</u>	<u>Description</u>	
1.	Financial Condition.....	10
2.	Accounting Controls and Procedures.....	10
3.	Expenditures .....	12
4.	Improper Transactions .....	15
5.	Personnel Policies and Procedures.....	16
6.	Community Oriented Policing Services (COPS) Grant.....	17
7.	City Services .....	17
8.	Budgets, Financial Reporting, and Minutes.....	20
9.	Restricted Revenues.....	21
10.	General Fixed Asset Records and Procedures .....	22
11.	Municipal Court.....	23



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Members of the Board of Aldermen  
City of Marston  
Marston, Missouri 63866

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Marston, Missouri. Our audit of the city included, but was not limited to, the year ended December 31, 1999. The objectives of this audit were to:

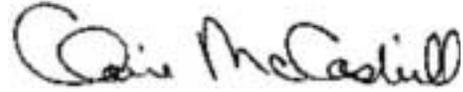
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on the selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to the auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Marston, Missouri.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill  
State Auditor

January 14, 2000 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Karen Laves, CPA
Audit Manager:	David Holtmann, CPA
In-Charge Auditor:	Sharon Hill
Audit Staff:	Jay Ross

HISTORY AND ORGANIZATION

CITY OF MARSTON, MISSOURI  
HISTORY AND ORGANIZATION

The City of Marston is located in New Madrid County. The city was incorporated in 1898 as a fourth-class city. The population of the city in 1990 was 691.

The city government consists of a mayor and four-member Board of Aldermen. The four board members are elected for two-year terms. The mayor is elected for two years, presides over the board of aldermen, and votes only in case of a tie. The Mayor, Board of Aldermen, and other principal officials at December 31, 1999, were:

<u>Elected Officials</u>	<u>Term Expires</u>	Actual Compensation for the Year Ended <u>December 31, 1999</u>	<u>Amount Of Bond</u>
Jeff Tucker, Mayor (1)	April, 2000	\$ 30	\$
Junior Phillips, Alderman	April, 2001	120	
Marilyn Thomason, Alderwoman(2)	April, 2000	40	
Rebecca Redden, Alderwoman (3)	April, 2001	70	
Robert Penman, Alderman (4)	April, 2000	0	
Bill Boyd, Municipal Judge (5)		0	
 <u>Other Principal Officials</u>			
Jennine Steward, City Collector/ Court Clerk (6)			20,000
Larry Jarred, Police Chief (7)		9,200	
Lewis Recker, City Attorney		1,800	

- (1) John Kretschner resigned in March 1999 and was replaced by Jeff Tucker. Paul Haubold was elected in April 2000.
- (2) Robert Silman was elected in April 2000 to replace Marilyn Thomason.
- (3) Resigned April 2000.
- (4) Donald Ferguson resigned in March 1999 and was replaced by Robert Penman. Wayne Ruby was elected in April 2000.
- (5) Roy Lovins resigned in November 1999 and was replaced by Bill Boyd. Roy Lovins was elected in April 2000.
- (6) Replaced Bridget Fortner whose employment was terminated in February 1999.
- (7) Replaced James Fortner whose employment was terminated in February 1999.

Assessed valuation and tax rate information for 1999 and 1998 are as follows:

ASSESSED VALUATION

	<u>1999</u>	<u>1998</u>
Real Estate	\$ 2,655,430	2,579,050
Personal Property	636,368	684,677
Railroad and Utility	<u>1,168,964</u>	<u>1,075,220</u>
Total	<u>4,460,762</u>	<u>4,338,947</u>

TAX RATES PER \$100 ASSESSED VALUATION

General	\$ 0.51	0.51
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The city had the following sales taxes; rates are per \$1 of retail sales:

	<u>Rate</u>	<u>Expiration Date</u>
General	.010	None
Road and bridge	.005	None

A summary of the financial activity for the city of Marston for the year ended December 31, 1999, is presented on the next page.

Year Ended December 31, 1999

	General Fund	Water and Sewer Fund	Street Fund	Construction Fund	Other* Funds	Total
<b>RECEIPTS:</b>						
Motor fuel and motor vehicle fees	\$ 0	0	28,036	0	0	28,036
Sales taxes	66,389	0	19,418	0	12,908	98,715
Property taxes	11,197	0	0	0	0	11,197
Railroad and utility taxes	5,076	0	0	0	0	5,076
Interest	0	0	0	3,307	125	3,432
User fees	0	120,825	0	0	0	120,825
Franchise taxes	40,170	0	0	0	0	40,170
Meter deposits	0	1,460	0	0	0	1,460
Fines and forfeitures	22,526	0	0	0	0	22,526
Membership dues	0	0	0	0	905	905
COPS grant	19,000	0	0	0	0	19,000
CDBG	0	0	0	0	35,042	35,042
Court costs	13,935	0	0	0	0	13,935
Donations	919	0	0	0	0	919
Loan proceeds	19,878	0	0	250,000	0	269,878
Other	6,319	103	3,435	0	1,029	10,886
Transfers in	53,460	0	21,720	0	13,327	88,507
Total Receipts	<u>258,869</u>	<u>122,388</u>	<u>72,609</u>	<u>253,307</u>	<u>63,336</u>	<u>770,509</u>
<b>DISBURSEMENTS:</b>						
Salaries	66,441	34,849	34,326	0	0	135,616
Contract labor	1,923	2,600	0	0	0	4,523
Trash contract	0	21,433	0	0	0	21,433
Office expense	14,129	10,305	7,042	0	0	31,476
Court	17,975	0	0	0	0	17,975
CDBG	0	0	0	0	35,031	35,031
Postage	668	504	0	0	0	1,172
Fuel	5,803	1,326	1,424	0	0	8,553
Chemicals	0	5,690	0	0	0	5,690
Repairs, parts, and supplies	12,498	22,034	12,655	0	0	47,187
Street paving	0	0	0	223,434	0	223,434
Fire department	0	0	0	0	3,154	3,154
Loan repayments	40,158	0	0	0	0	40,158
Other	35,897	1,752	12,449	0	16,251	66,349
Transfers out	55,627	22,521	5,237	0	5,122	88,507
Total Disbursements	<u>251,119</u>	<u>123,014</u>	<u>73,133</u>	<u>223,434</u>	<u>59,558</u>	<u>730,258</u>
Receipts Over (Under) Disbursements	7,750	-626	-524	29,873	3,778	40,251
Cash Balance, January 1,	1,646	626	524	0	8,595	11,391
Cash Balance, December 31,	<u>\$ 9,396</u>	<u>0</u>	<u>0</u>	<u>29,873</u>	<u>12,373</u>	<u>51,642</u>

\* Includes Fire, Police, Sales Tax Lease, Bond Reserve, Principal and Interest, POST, and CDBG Grant Funds.

MANAGEMENT ADVISORY REPORT

CITY OF MARSTON  
SUMMARY OF FINDINGS

1. Financial Condition (page 10)

The city of Marston is in poor financial condition. Because of the poor financial condition the city has used overbillings from a federal grant program to fund normal operating expenses.

2. Accounting Controls and Procedures (pages 10-12)

Accounting and bookkeeping duties are not adequately segregated. Receipts are not recorded or deposited in a timely manner. Checks were signed in advance by the previous Mayor.

3. Expenditures (pages 12-15)

The city has no formal bidding policy. Supporting documentation was not available for several payments to vendors. The board does not review related invoices and supporting documentation prior to signing checks. The city does not reconcile all bank accounts and does not have adequate procedures established for the petty cash fund.

4. Improper Transactions (pages 15-16)

Several loans, personal purchases and other improper transactions identified by the city's independent auditor were made by the former Police Chief and the former City Collector. In addition, salary overpayments totaling approximately \$2,815 were made to the former Police Chief and the former City Collector.

5. Personnel Policies and Procedures (pages 16-17)

Time sheets and leave records are not prepared and maintained on a regular basis.

6. Community Oriented Policing Services (COPS) Grant (pages 17)

The city improperly claimed and received reimbursement of approximately \$37,000 from a federal grant to which it was not entitled.

7. City Services (pages 17-19)

Utility accounting and bookkeeping duties are not adequately segregated. Adjustments to utility accounts are not approved by the board. The number of gallons of water billed to customers is not reconciled to the number of gallons of water pumped by the city. A log of miscellaneous work performed by the water and sewer department is not maintained and prenumbered billing forms are not utilized.

8. Budgets, Financial Reporting, and Minutes (pages 20-21)

The city does not prepare or adopt annual budgets. Semiannual financial statements have not been published and annual financial reports are not submitted to the State Auditor's office as required by state law.

9. Restricted Revenues (pages 21-22)

The city inappropriately transfers monies in order to pay bills without consideration of restricted use of some funds. In addition, the city does not ensure expenditures are properly allocated to the various funds of the city.

10. General Fixed Asset Records and Procedures (page 22)

The city does not maintain complete records to account for all property owned by the city. Mileage or maintenance logs are not maintained for any of the vehicles owned by the city.

11. Municipal Court (page 23)

Receipts slips are not issued for all monies received by the court. Neither the police department nor the municipal division adequately accounts for the numerical sequence and ultimate disposition of summonses issued.

CITY OF MARSTON, MISSOURI  
MANAGEMENT ADVISORY REPORT

**1. Financial Condition**

The city of Marston is in poor financial condition as a result of various factors. Numerous internal control weaknesses, lax controls over expenditures, and inefficient management practices have been identified and discussed in more detail throughout our Management Advisory Report (MAR). Because of the poor financial condition, the city has used overbillings from a federal grant program to fund normal operating expenses.

Without the continued use of the grant proceeds which have been improperly received, the city's General Fund would be operating at a deficit. The board needs to closely monitor the ongoing financial condition of the General Fund. The board should develop a plan which will allow the city to repay the overbillings and operate the General Fund with the available resources.

The Board of Aldermen needs to ensure an effective system of accounting and administrative controls are in place, including an effective financial reporting system and procedures to monitor budgeted and actual activity. The recommendations contained in the remaining MARs, if implemented will help establish these controls and procedures.

**WE RECOMMEND** the Board of Aldermen closely monitor the financial condition of the city's funds. In addition, the board should develop a plan to allow the city to repay the overbillings and operate the General Fund with the available resources.

**AUDITEE'S RESPONSE:**

*We will comply with this recommendation. We are working on a budget for the current year and will have it completed within ninety days.*

**2. Accounting Controls and Procedures**

- A. The City Collector performs all accounting and record keeping duties of the city and essentially serves as City Treasurer and City Clerk as well as City Collector. While the Board of Aldermen has appointed one of its members as City Clerk, it appears that individual is not involved in the accounting or record keeping of the city records. The City Collector collects all receipts, prepares deposits, reconciles the bank accounts, and serves as secretary to the board. Neither the board nor other personnel independent of the cash custody and record-keeping functions provide adequate supervision or review of the work performed by the City Collector. A similar comment was made by the city's auditor during the previous annual audit. Attorney General's Opinion No. 24, 1995 to Dodds, concluded that in a fourth class

city the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these three offices, by the same person at the same time would be incompatible. One person holding all of these offices does not allow the separation of duties necessary for a proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances intended by the state law.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by segregating duties to the extent possible. In addition, the board should require someone independent of the cash custody and record keeping functions to perform periodic reconciliations of receipts to deposits, invoice files to checks issued, and review bank statements and bank reconciliations.

- B. Receipts are not deposited intact on a timely basis. Some receipts were held up to twelve days before being deposited. In addition, checks and money orders are not restrictively endorsed immediately upon receipt and are kept in an unsecured location.

To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, deposits should be made intact daily or when accumulated receipts exceed \$100. In addition, checks should be restrictively endorsed immediately upon receipt and kept in a secure location until deposited.

- C. Checks issued on the bank accounts require two signatures. Prior to February 1999, checks were occasionally signed in advance by the previous Mayor. Currently, the Mayor as well as two Aldermen are authorized to sign checks; however, none of these officials are bonded.

Signing checks in advance does not allow for proper review of the documentation to support the disbursement and diminishes the control intended by dual signatures. In addition, failure to bond all persons with access to assets exposes the city to risk of loss.

- D. Receipts are not promptly recorded from the receipt book and water and sewer billing stubs to the daily receipt ledger. Some receipt slips were not recorded on the daily receipt ledger for up to twelve days.

To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, all receipts should be promptly recorded on the accounting records. In addition, the original receipt slips should be reconciled to the daily receipt ledger, and any discrepancies promptly investigated.

**WE RECOMMEND** the Board of Aldermen:

- A. Provide for an adequate segregation of duties or the performance of independent reconciliations and reviews of the accounting records and procedures.
- B. Ensure all receipts are deposited intact daily or when accumulated receipts exceed \$100. In addition, all checks and money orders should be restrictively endorsed immediately upon receipt and receipts stored in a secure location.
- C. Discontinue the practice of signing checks in advance, and obtain bond coverage for all persons with access to city assets.
- D. Promptly record receipts to the daily receipt ledger, reconcile receipt slips to the ledger and promptly investigate any discrepancies.

**AUDITEE'S RESPONSE:**

- A. *We plan to hire a second person in the office to separate duties. The City Clerk/Collector position will be separate. Closer reviews will be made by Mayor of the financial statements.*
- B. *Daily receipts will be deposited intact. Checks and money orders will be stamped for deposit only immediately upon receipt.*
- C. *This practice is not one of this administration. Bond coverage for all those authorized to sign checks will be obtained.*
- D. *Receipts will be recorded daily.*

<b>3.</b>	<b>Expenditures</b>
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- A. The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. Bids were either not solicited or bid documentation was not retained in some instances, including \$19,877 for a police car, \$21,433 for trash service, \$12,302 for workers compensation insurance, and \$3,000 for a dump truck.

A formal bidding policy for major purchases based on specified dollar amounts would provide a more efficient framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders.

Competitive bidding also helps ensure all parties are given an equal opportunity to participate in the city's business. Bids may be handled by telephone quotation, by written quotation, by sealed bid, or by advertised bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is

used, complete documentation should be maintained of all bids received and the reasons noted why the bid was selected.

- B. Vendor invoices or other supporting documentation were not retained for some expenditures. These expenditures included \$493 to Wal-Mart and \$123 to a local general store. All expenditures should be supported by paid receipts or vendor invoices to ensure the obligation was actually incurred and the expenditures represent appropriate uses of public funds.
- C. The Board of Aldermen does not review and approve the payment of city expenditures prior to the disbursement being made. Although the board minutes make a general reference that invoices are approved for payment, a listing of all disbursements is not prepared to accompany the minutes.

To adequately document the board's review and approval of all disbursements, a complete listing of bills should be prepared, signed or initialed by the board to denote its approval and retained with the official minutes. In addition, supporting documentation should be reviewed by the Board of Aldermen before payment is made to ensure all disbursements represent valid operating costs of the city.

- D. The city has charge accounts set up at several local businesses for the purchase of items such as gas, supplies, and miscellaneous items. Some of the purchases billed to the city included clothing, toys, headbands, soda, and lunch for employees. The city does not monitor the amounts charged to ensure the items are for city business only. In addition, on some occasions the city charged items on behalf of an individual or club; however, the city does not maintain adequate records to ensure that the city is reimbursed.

Procedures have not been established to govern the use of these charge accounts and to ensure the accounts are only used for business purposes. In addition, procedures have not been established to ensure the amounts charged on the behalf of others are paid in full.

Since the city of Marston is recognized as a governmental entity, it is tax exempt. It does not appear proper for the city to allow its employees or other individuals to benefit from the use of the city's tax exempt status. Doing so violates the terms of the city's sales tax exemption letter.

- E. The city did not effectively monitor the balances of several bank accounts and often issued checks when sufficient funds were not available. During the two years ended December 31, 1999, bank charges in the amount of \$325 were assessed against the city for insufficient fund checks. To prevent the city from incurring unnecessary bank charges, the city should maintain and monitor check book balances for all accounts.

- F. The city has maintained a petty cash fund of approximately \$100 for miscellaneous purchases. The fund was not operated on an imprest basis until July 1999. During the two years ended December 31, 1998, checks made payable to cash totaled at least \$1,766 which the city has indicated were used to replenish the petty cash fund. During that same time, invoices or receipts were not available to support expenditures of the fund totaling \$827 and a ledger was not maintained to document disbursements. In addition, expenditures totaling approximately \$130 were noted that did not appear to be a prudent use of public funds (items such as flowers, sodas and lunches for employees). The fund is entirely under the control of the City Collector and no independent review is made to ensure it is maintained properly.

**WE RECOMMEND** the Board of Aldermen:

- A. Establish formal bidding policies and procedures. In addition, documentation of the bidding process should be maintained in all cases.
- B. Require adequate supporting documentation for all expenditures.
- C. Review and approve all expenditures of city funds prior to the disbursements being made. In addition, the approval of disbursements should be adequately documented by including a listing of all approved disbursements in the board minutes.
- D. Establish a policy to limit the use of the charge accounts for business purposes and prohibit the practice of allowing employees to charge personal items.
- E. Maintain checkbook balances for all accounts and ensure procedures are in place to eliminate bank overdraft charges.
- F. Ensure the petty cash fund is periodically counted and reconciled to the imprest balance by an independent person. Invoices should be maintained for all petty cash expenditures and a ledger should be prepared of all petty cash transactions. In addition, the board should ensure disbursements are a necessary and prudent use of public funds.

**AUDITEE'S RESPONSE:**

- A. *A formal bidding policy will be adopted.*
- B&E. *We agree with the recommendations.*
- C. *We will attempt to follow this recommendation.*
- D. *The practice of employees charging to the city's account has been prohibited.*
- F. *This has been implemented.*

**4.****Improper Transactions**

As noted by the city's auditor during his annual audit for the year ended December 31, 1998, loans, personal purchases, water bills and tap fees, and tractor rental fees were made to former Police Chief James Fortner and former City Collector Bridget Fortner (his wife) during the two years ended December 31, 1998.

Loans and personal purchases	\$4,041
Water bill	50
Water & sewer tap fee	150
Tractor Rental	<u>150</u>
Total	<u>\$4,391</u>
Repaid 1997	\$ 761
Repaid 1998	1,394
Repaid 1999	<u>1,905</u>
Total	<u>\$4,060</u>

The city's auditor identified \$4,391 in improper transactions of which \$4,060 was reimbursed to the city through salary withholdings and repayments by the Fortners. The repayments included \$1,349 from Alderman Phillips on behalf of the Fortners.

In addition, there were salary overpayments totaling \$2,815 to the Fortners during the two years ended December 31, 1998, that are not included in the above amounts. These salary overpayments and improper transactions occurred and were not detected because of the lack of authorization and review of payments by the board and the practice of signing checks in advance (see MAR 2.C.). Although city checks required two signatures, the former Mayor routinely signed checks in advance allowing the former City Collector, Bridget Fortner, to negotiate the improper transactions and salary overpayments. The employment of Bridget and James Fortner was terminated by the city in February 1999.

The Board of Aldermen has no statutory authority to make loans and Article VI, Section 23, of the Missouri Constitution, specifically prohibits counties, cities, or other political subdivisions of the state from granting public money or things of value to any corporation, association, or individual.

**WE RECOMMEND** the Board of Aldermen review the salary overpayments and improper transactions and work with law enforcement officials regarding any criminal prosecution and to obtain restitution of the remaining amounts due the city. In addition, the board should discontinue the practice of loaning monies to individuals and develop adequate review procedures for authorizing payroll amounts.

**AUDITEE'S RESPONSE:**

*We will attempt to recover monies due the city through prosecution if necessary.*

*Former Police Chief James Fortner and former City Collector Bridget Fortner provided the following response:*

*All of the loans, personal purchases and related transactions were approved by the city. The city had full knowledge of all of the above amounts, which were noted on our check stubs when the repayments were made.*

*The city authorized additional payments on numerous occasions without documenting the amounts in the minutes for working alone without any assistance.*

<b>5. Personnel Policies and Procedures</b>
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- A. The City Collector, police officers, and maintenance employees do not prepare time sheets or daily activity logs on a regular basis. In addition, time sheets that were prepared were not consistently signed by the employee and do not indicate review and approval by the supervisor.

Time sheets are necessary to document hours actually worked, substantiated payroll expenditures, and provide the board with a method to monitor hours worked. The city should require all employees to prepare detailed time sheets which are reviewed and approval by a supervisor.

- B. The city does not maintain records of vacation, sick leave, and compensatory time earned, taken, or accumulated for each employee. Adequate documentation of vacation and sick leave earned, taken, and accumulated is necessary to ensure employees are properly compensated for accumulated leave and to ensure leave time used is not in excess of time accumulated.

**WE RECOMMEND** the Board of Aldermen:

- A. Require all city employees to prepare time sheets reflecting the actual time worked. In addition, time sheets should be signed by the employee and the applicable supervisor.
- B. Maintain accurate records of vacation, sick leave, and compensatory time in a manner that provides a complete record of the amount of time earned, taken, and any accumulated balances.

**AUDITEE'S RESPONSE:**

- A. *Time clock and/or time sheets are being used by all employees.*

B. *This has been implemented beginning in January 1999.*

**6. Community Oriented Policing Services (COPS) Grant**

The city received federal assistance from the U.S. Department of Justice under the COPS program for three additional full time officers which increased the number of city officers to four. Since March 1995, the city has received grant awards totaling \$80,007. Under the grant provisions, the city was required to provide 25 percent of the cost of employing the additional officers until the grant expires on September 30, 2000, in addition, to continuing to provide 100 percent of the cost of employing the original officer.

The city received reimbursement totaling \$64,270 for the period January 1997 through September 1999. During this time period, the city employed two or three officers (including the original officer) but included the salary of the original officer in the reimbursement request. Because the grant agreement required the city to fund 100 percent of the first officer, excess disbursements of approximately \$37,000 were claimed.

The Board of Aldermen should contact the applicable federal grantor agency to resolve this issue. In addition, the city should ensure future compliance with all federal regulations.

**WE RECOMMEND** the Board of Aldermen consult with the grantor agency to resolve this issue. In addition, the Board of Aldermen should ensure future compliance with all federal regulations and only claim reimbursement for allowable costs.

**AUDITEE'S RESPONSE:**

*We will be contacting the Department of Justice and will ensure compliance in the future.*

**7. City Services**

The city provides water and sewer to approximately 300 customers. Our review of the billing and receipt process and internal controls indicated the following areas in need of improvement.

A. The City Collector is responsible for billing, collecting, and recording all utility payments. Neither the board nor other personnel independent of the billing and collection functions provide adequate supervision or an independent review of the work performed by the City Collector.

To safeguard against possible loss or misuse of funds, internal controls should provide for reasonable assurances that all transactions are accounted for properly and assets are adequately safeguarded. An adequate system of internal controls requires

segregation of duties. The Board of Aldermen should, at a minimum, designate someone independent of the process to perform and document periodic reviews of the records and procedures.

- B. The city has a computerized billing system for the water and sewer customers. This system automatically records adjustments made to the monthly utility bills to an adjustments sheet. The City Collector made numerous adjustments for incorrect water usage amounts or leaks. While the reasons to adjust the billings may be valid, it appears most adjustments are made at the discretion of the City Collector and are not formally reviewed by the Mayor or the board.

To ensure all adjustments to water and sewer billings are proper, the Mayor or Board of Aldermen should review and approve all billing adjustments.

- C. The city does not reconcile the total gallons of water billed to customers to total gallons of water pumped. The City Collector receives water usage information for each account and the water personnel record meter readings of the city's water well, so information is available to perform such reconciliations. During the month of March 1999, the gallons of water pumped exceeded the total gallons billed by 1,754,550 gallons, or 44 percent. Over one-third of the loss is between the city's well and water tower which the city has indicated is due to flushing out the system and known leaks.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should reconcile the total gallons of water pumped to the gallons of water billed on a monthly basis and investigate significant differences. The Public Service commission generally recommends investigation if water usage not billed exceeds 15 percent.

- D. The city receives cash, checks and money orders for the payment of utility bills. The city will issue a receipt slip for the payment only if the utility stub does not accompany the payment. In most instances, the utility stubs serve as the city's receipt slip. However, the method of payment (cash, check, money order, etc.) is not consistently recorded on the utility stub.

To ensure the proper handling and safeguarding of city monies, the method of payment should be indicated on the utility stubs and the composition of receipts should be reconciled to the amounts deposited.

- E. The city's water and sewer department performs miscellaneous services (brush hog and backhoe service, water and sewer connections) for the city businesses and residents. The water and sewer department does not keep a log of work performed nor is a prenumbered billing form utilized for the services provided.

To ensure all work performed is properly billed, a log should be prepared by the

water and sewer department. In addition, prenumbered billing forms should be utilized and accounted for by the city.

**WE RECOMMEND** the Board of Aldermen:

- A. Adequately segregate the accounting duties of the City Collector or designate someone independent of the process to perform and document periodic reviews of the records and procedures of the water and sewer billings.
- B. Ensure adjustments to water and sewer billings are reviewed and approved by the Mayor or Board of Aldermen.
- C. Compare the gallons of water pumped to the gallons of water billed on a monthly basis and investigate significant differences.
- D. Require the City Collector to record the method of payment on utility stubs and reconcile them to the amounts deposited.
- E. Require the water and sewer department to prepare a log of all work performed. In addition, prenumbered billing forms should be utilized and accounted for by the city.

**AUDITEE'S RESPONSE:**

- A. *This will be implemented when we segregate the duties of the City Clerk/City Collector.*
- B. *This will be implemented by the Mayor or the water/sewer commissioners.*
- C. *We will attempt to monitor closer when the new water system is in place.*
- D. *This has been implemented.*
- E. *This will be implemented.*

<b>8. Budgets, Financial Reporting, and Minutes</b>
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- A. The city does not prepare and adopt annual budgets. Section 67.010, RSMo 1994, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing year.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of city operations. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and

expenditure estimations by fund, and include the beginning available resources and reasonable estimates of ending available resources. The budget should also include a budget message and comparison of actual or estimated revenues and expenditures for the two preceding fiscal years.

- B. The city has not published semiannual financial statements as required by state law. Section 79.160, RSMo 1994, requires the Board of Aldermen to prepare and publish semiannual statements. These financial statements are to include a statement of receipts and expenditures and indebtedness of the city for the preceding six month period. In addition, Section 79.165, RSMo 1994, states the city cannot legally disburse funds until the financial statement is published.
- C. The city does not consistently submit annual financial reports to the State Auditor's Office as required by state law. The last financial report submitted was for the year ended December 31, 1997. Section 105.145, RSMo 1994, requires political subdivisions to file an annual report of the financial transactions of the political subdivision with the State Auditor's Office.
- D. The board minutes are prepared by the City Collector, but the minutes are not signed. The board minutes should be signed by the City Collector as preparer and by the Mayor to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.

**WE RECOMMEND** the Board of Trustees:

- A. Prepare annual budgets in compliance with state law, and make periodic comparisons between budgeted and actual revenues and expenditures.
- B. Publish semiannual financial statements as required by state law.
- C. Submit annual financial reports to the State Auditor's Office as required by state law.
- D. Ensure board minutes are signed by the preparer and Mayor or a designated member of the board to attest to their accuracy.

**AUDITEE'S RESPONSE:**

A. *This has been done in past and will be reinstated.*

B-D. *These will be implemented.*

<b>9. Restricted Revenues</b>
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For a number of years, the city has made transfers between the various funds when monies

are needed to pay bills. This appears to have been a regular part of the city's operations with no consideration given to restricted monies. During the year ended December 31, 1999, transfers totaling \$35,098 were made from restricted funds (\$30,361 from the Water and Sewer Fund and \$4,737 from the Street Fund) to the General Fund. These restricted funds should not be used for general purposes. Although it appears the city paid back the restricted funds with its one cent general sales tax monies, the city should refrain from transferring restricted monies in the first place. In addition, procedures have not been established to ensure expenditures are properly allocated among the various funds benefiting from the expenditures and to ensure restricted revenues are expended only for their intended purposes.

It is essential that the city account for the various revenue sources and properly allocate expenses to the various funds. Allocation of expenses is necessary for the city to ensure the water and sewer rates are sufficient to cover the costs of providing the service without generating profits to subsidize other city services. Furthermore, the uses of certain funds, such as state motor vehicle-related revenues, are limited by state law for specified purposes. Therefore, documentation and proper allocation of expenses is useful for both management and compliance purposes.

Because the city has not properly accounted for the various revenue sources and has transferred restricted monies inappropriately to various funds, it is likely current balances maintained in various city funds are not correct. The board should determine if appropriate adjustments can be determined.

**WE RECOMMEND** the Board of Aldermen discontinue transferring restricted revenues and ensure all expenditures are properly allocated to the various funds. In addition, the board should review the current balances and make corrections as necessary.

**AUDITEE'S RESPONSE:**

*Attempts will be made to eliminate the transfers and repay any applicable transfers made in the past.*

<b>10. General Fixed Asset Records and Procedures</b>
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- A. The city does not maintain complete records to account for all property owned by the city. Property records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. The record should include a detailed description of the assets including the name, make and model numbers, and asset identification number, the physical location of the assets, and the date and method of disposition of the assets when disposed of. In addition, all property items should be identified with a tag or other similar device, and the city should conduct annual inventories.

Adequate general fixed asset records are necessary to secure better internal control

and safeguard city assets which are susceptible to loss, theft, or misuse, and provide a basis for determining proper insurance coverage required on city property.

- B. The city does not maintain mileage or maintenance logs for any of the vehicles owned by the city. Mileage logs are necessary to document appropriate use of the vehicles and to support gasoline charges. The mileage and maintenance logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings, and the operation and maintenance costs. These logs should be reviewed by a supervisor to ensure vehicles and equipment are used only for city business, are being properly utilized, and help identify vehicles and equipment which should be replaced. Information on the logs should be reconciled to gasoline purchases and other maintenance charges.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure property records are maintained which include all pertinent information for each asset such as tag number, description, cost, acquisition date, location, and subsequent disposition. Additionally, the city should properly tag, number, or otherwise identify all applicable city property and conduct an annual inventory.
- B. Maintain mileage and maintenance logs for all city vehicles.

**AUDITEE'S RESPONSE:**

- A. *We will attempt to follow this recommendation.*
- B. *This will be maintained.*

<b>11. Municipal Court</b>
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- A. Receipt slips were not issued for some monies received. During the period March 1999 to July 1999, receipts totaling \$308 were deposited, for which receipts slips had not been issued. Failure to issue receipt slips for all monies received increases the risk that loss or misappropriation of funds will not be detected in a timely manner.
- B. Neither the police department nor the municipal division adequately accounts for the numerical sequence and ultimate disposition of summonses issued. Without a proper accounting of the numerical sequence and ultimate disposition of summonses, the police department and the municipal division cannot be assured all summonses are submitted to the court for processing.

A similar condition was noted in our prior audit report of the municipal division.

**WE RECOMMEND** the city of Marston Municipal Division:

- A. Issue receipt slips for all monies received.
- B. Work with the police department to account for the numerical sequence and ultimate disposition of all summonses.

**AUDITEE'S RESPONSE:**

*A&B. This has been implemented.*

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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